HOUSING MARKET OUTLOOK
Kitchener and Guelph CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

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Table of Contents

1 Market at a Glance

2 Resale Market

3 New Homes Market

4 Local Economy

5 Mortgage Rate Outlook

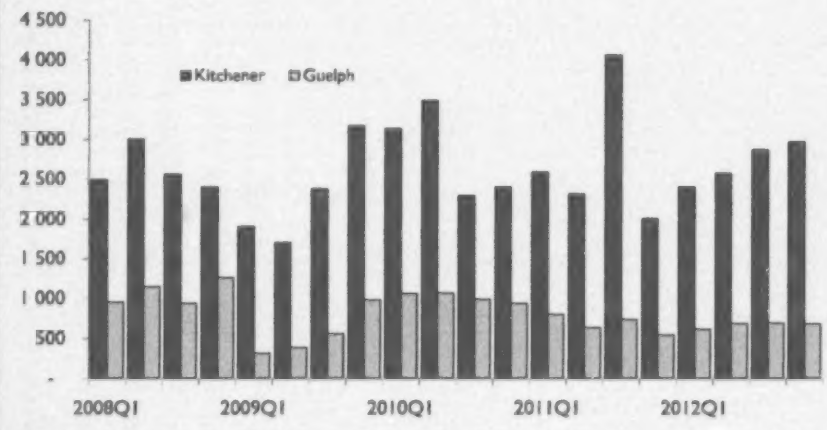
6 Forecast Summary

Market at a Glance

- Existing home sales will stabilize at current levels throughout most of 2012
- New listings will remain high and the resale housing market will be balanced through 2012
- New home construction will be little changed next year
- Low mortgage rates and population growth will support housing demand

Figure 1

Quarterly Housing Starts Trend Higher in 2012



Source: CMHC forecasts

* The forecasts included in this document are based on information available as of October 5, 2011.

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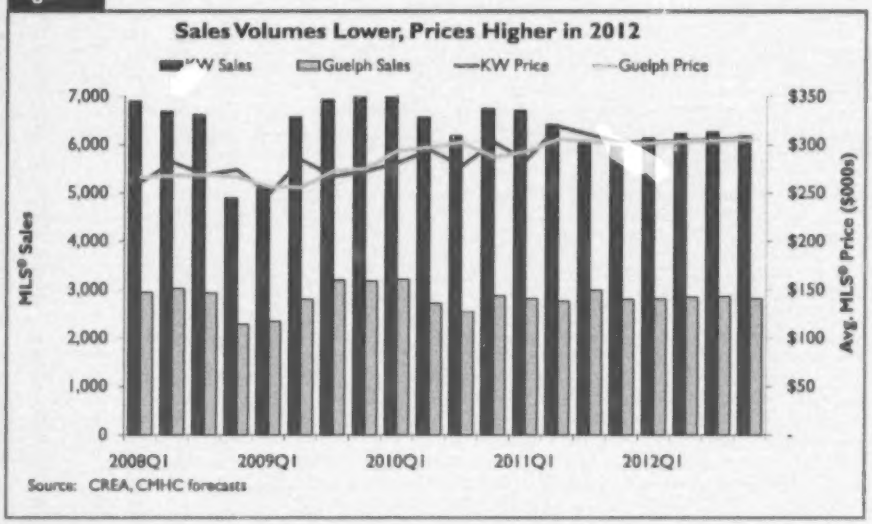
Figure 2



Resale Homes Market

Stable resale markets through 2012

The resale market has stabilized somewhat in 2011 and this stability will continue into 2012. Sales will recover slightly in early to mid 2012 as government stimulus eases consumer reluctance to spend and lower mortgage rates and prices make housing purchases attractive. However, sales will drop off later in 2012 as the slower employment growth in 2012 make consumers more hesitant to buy. Overall, sales in 2012 will be little changed from 2011 levels, as a slowing economy is balanced by low long-term mortgage rates.

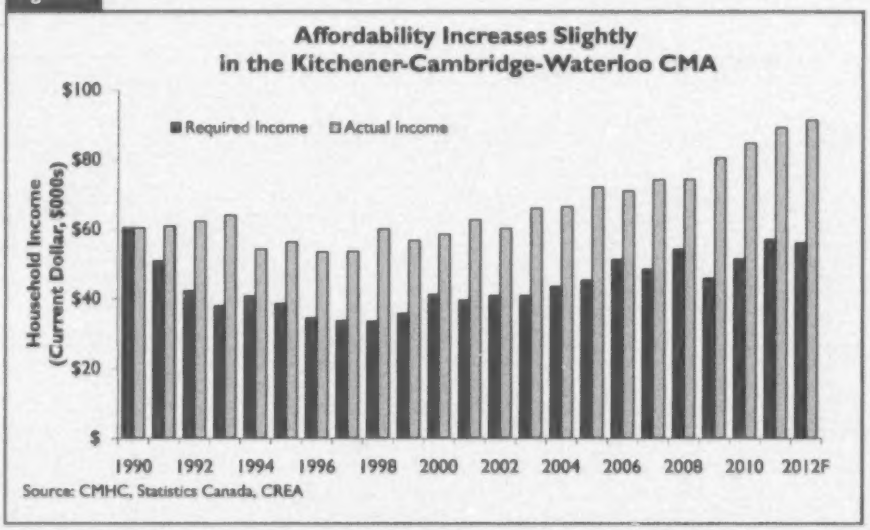
Activity among first-time buyers will rise early in 2012 and repeat buyer demand will continue but at a slightly reduced level. In Kitchener, lower first-time buyer demand reduced sales in 2011. The fall-off in sales of homes in the lower price ranges is consistent with a relative shift from first-time buyers to repeat buyers. With many first-time buyers having purchased homes early in 2010, they're not a big factor in the market this year. In addition, employment for this group took longer to recover and many who found employment are still saving up for a down payment. Improved consumer attitudes and lower long term mortgage rates will support first time buyer demand by the early part of 2012.

The Guelph story is slightly different. The 2010 sales rebound in Guelph was not as strong as in Kitchener, as some buyers put their intentions to buy on hold as prices jumped. Sales will be marginally higher in 2011, with sales peaking in the third quarter. Sales in the fourth quarter will decline from this peak level before moving higher through the first three quarters of 2012.

More first-time buyers/fewer repeat buyers

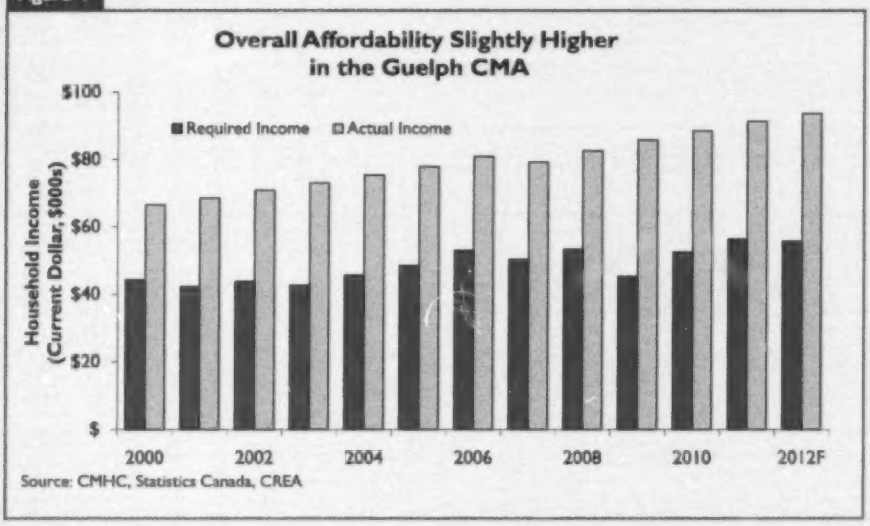
The first-time buyer story for Guelph will resemble the story in Kitchener. In 2012 with low mortgage rates and little price growth, first-time buyers who remained on the sidelines in 2011 will be looking to buy their first home. Mortgage rates will remain low throughout most of 2012, before beginning to increase later in 2012 and into 2013. Employment in the 15-24 age group has been slowly improving

Figure 3



Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

Figure 4



and households in this group will be better able to purchase a home in 2012. With little price growth expected in 2012, homes will remain within reach of many first-time buyers. Although first-time buyer demand will increase, the slowing economy will keep the number of first-time buyers below the strong level of 2010. Immigrants usually rent when they move to Canada, but move to homeownership within five years. Immigration was strong over the last several years and some of these households will now be ready to buy a home.

On the other hand, slowing equity gains will impact repeat buyers. With little price growth expected in 2012, equity gains will slow and some homeowners will remain on the sidelines in 2012. This will result in fewer repeat buyers.

Listings to remain high

New listings will remain at a high level. With fewer completions, fewer homeowners are listing their homes for sale to move into a newly completed home. On the other hand, the strong price growth in the first half of 2011 will continue to draw some homeowners to list their homes through the end of this year and early in 2012. But, with lower average prices in the latter part of 2011 and minimal price growth in 2012, potential repeat buyers may be discouraged from listing their home later in 2012. The increase in the stock of homes and in the population will put upward pressure on listings. As a result, overall, listings will be little changed from the 2011 level.

Little price growth

Prices peaked in the second quarter of 2011, but have since come off this record. Prices will continue to decline through the end of this year, before beginning to increase again in 2012. With a higher percentage of repeat buyers, the average price in 2011 will increase by five per cent in Kitchener and two per cent in Guelph. For 2012, price growth is expected to be less than one per cent. An increased number of first-time buyers, who usually buy lower-priced homes, will put downward pressure on the average price. While the resale market favoured sellers through the first three quarters of 2011, the market has become balanced in the latter part of this year and will continue to be balanced throughout most of 2012. A balanced resale market will put little upward pressure on prices.

New Homes Market

Housing starts unchanged in 2012

Housing starts in the Kitchener-Cambridge-Waterloo (subsequently referred to as Kitchener) and Guelph Census Metropolitan Areas (CMAs) will decline in 2011, and remain relatively unchanged in 2012. More choice in resale markets, slower job growth and modest growth in discretionary spending will create headwinds for new home construction in 2012. Housing starts in 2011 have slowed after the pull-forward demand of late 2009 and early 2010 brought additional buyers into the new home market. In Kitchener, starts will only be marginally lower in 2011 due to the surge in apartment construction in the last half of this year. On the other hand, Guelph starts have dropped significantly due to weaker demand for all housing types. In Kitchener, single-detached starts will increase in 2012 as more land will create choice for prospective buyers. Land supply for detached dwellings is constraining building in some areas, but the new land opening up in Waterloo and possibly Cambridge in 2012 will temporarily alleviate this shortage. Migrants from the more expensive Toronto market are supporting demand for detached homes. Builders have not been overbuilding, as the number of unsold units remains near historically low levels. There is no need to slow down building to catch up with excess inventory.

Lower demand from first-time buyers led to a decline in construction of the relatively more affordable townhouses in 2011, while, strong demand from immigrants, students and downsizing empty-nesters led to an increase in the construction of apartments, both rental and condominium. In 2012, with more first-time buyers in the market, demand for townhouses will increase. Demand for apartments will remain strong, but will come off the strongest level in more than two decades. Growth in the construction of higher density building types is in line with the Places to Grow Act and Waterloo Official Plan.

Single-detached starts will decline significantly in Guelph in 2011 as some demand for new homes was pulled forward into 2010. In addition, with single-detached new home prices rising at a significantly higher rate than resale prices, homebuyers have looked to the resale market to buy a home. With uncertain economic conditions weighing on consumers and some land constraints in the City of Guelph, detached starts will remain at the current low levels in 2012. Townhouse and apartment starts will also be little changed in 2012.

The average price of a detached home has continued to grow this year and is expected to continue this upward pace in 2012. Limited inventory and rising costs are putting upward pressure on prices. Growth in the average Kitchener price has been much more muted than in 2010. This was due to changes in the mix of homes sold and location of these sales. The Guelph average price increased more significantly due to the demand for more expensive homes. Prices for single-detached homes will increase in line with the New Home Price Index (NHPI), which is expected to increase by two per cent in 2012. The NHPI measures the change in the price of constant quality homes.

Local Economy

Slowdown in economic growth

In 2012, employment is expected to increase only modestly. Kitchener employment has continued to pick up through the first three quarters of 2011, but the rate of growth has slowed in the past three months after two years of strong employment gains following the recession. On average, employment growth in 2011will be stronger than in 2010. A diverse economy will bode well for job growth, but uncertain global and US growth will impact manufacturing and trade negatively, while increased student populations, many construction projects and the high-tech sector will strengthen the Kitchener economy. Public sector growth will be limited as governments refrain from additional spending measures.

In Guelph, employment has been slower to recover this year. After declining at the end of 2010, Guelph employment did not surpass the level in the first half of 2010 until the third quarter of this year. Overall, employment growth in 2011 will be muted. In 2012, employment will grow at about the same pace as in 2011.

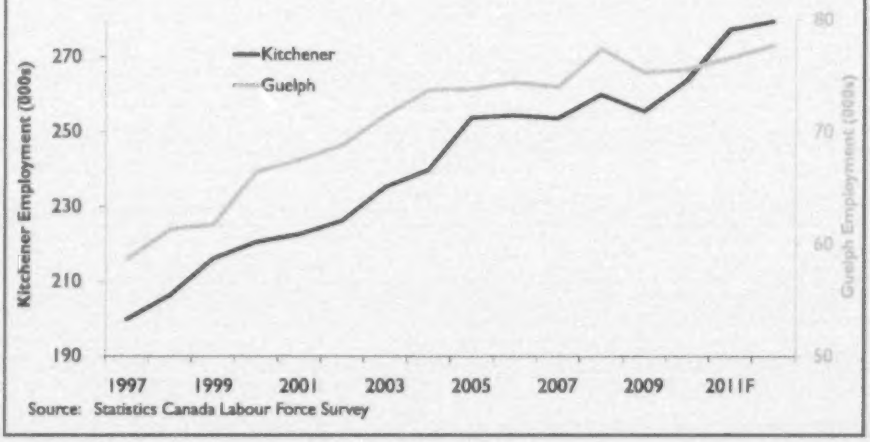
In both CMAs, wage growth in 2011 will be higher than the inflation rate. Wages in Kitchener will grow by more than five per cent, while Guelph wages will increase by more than three per cent. But, in 2012, with a slowing economy, wage growth will only keep pace with inflation.

Population continues to grow

Population growth is key to housing demand in the long run. In Kitchener and Guelph, both natural increase and migration add to the population growth. In both Kitchener and Guelph, population growth has slowed from the higher levels of the mid 2000's. This is one of the reasons that housing starts are down. Although migration is down from the early to mid 2000's, migration to Kitchener is

Figure 5

Little Employment Growth in 2012



Source: Statistics Canada Labour Force Survey

expected to average close to 3,000 for the next few years and more than 800 to Guelph.

In the next five years, there will be close to 25,000 more people in Kitchener than there are today or approximately 13,000 new households. Almost every new household needs a place to live. Although mortgage rates and employment may affect the rate of household formation, still, it is expected that there will be a need for more than 10,000 new housing units in the next five years. The type of housing required will vary by age group, economic conditions and land supply.

Mortgage rate outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary
Kitchener-Cambridge-Waterloo CMA
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	6,269	6,580	6,772	6,325	-6.6	6,250	-1.2
MLS® New Listings	10,521	10,387	10,967	11,000	0.3	11,100	0.9
MLS® Average Price ($)	271,222	269,552	289,041	304,000	5.2	305,000	0.3
New Home Market							
Starts:							
Single-Detached	1,446	1,161	1,255	1,175	-6.4	1,350	14.9
Multiples	1,188	1,137	1,560	1,575	1.0	1,350	-14.3
Semi-Detached	82	62	94	30	-68.1	40	33.3
Row/Townhouse	569	565	498	270	-45.8	310	14.8
Apartments	537	510	968	1,275	31.7	1,000	-21.6
Starts - Total	2,634	2,298	2,815	2,750	-2.3	2,700	-1.8
Average Price ($):							
Single-Detached	352,644	345,289	378,811	382,000	0.8	390,000	2.1
New Housing Price Index (% chg.)	2.4	0.6	1.3	2.8	-	2.0	-
Rental Market							
October Vacancy Rate (%)	1.8	3.3	2.6	2.0	-0.6	1.8	-0.2
Two-bedroom Average Rent (October) ($)	845	856	872	885	-	900	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	259,900	255,400	263,700	277,300	5.2	279,500	0.8
Employment Growth (%)	2.5	-1.7	3.2	5.2	-	0.8	-
Unemployment rate (%)	6.0	9.5	8.0	6.9	-	6.7	-
Net Migration	3,168	2,457	2,865	2,900	1.2	2,950	1.7

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,794	2,878	2,834	2,845	0.4	2,840	-0.2
MLS® New Listings	4,830	4,456	4,542	4,600	1.3	4,700	2.2
MLS® Average Price ($)	267,329	265,799	295,207	300,500	1.8	303,500	1.0
New Home Market							
Starts:							
Single-Detached	425	299	406	275	-32.3	275	0.0
Multiples	662	268	615	375	-39.0	390	4.0
Semi-Detached	44	74	34	50	47.1	50	0.0
Row/Townhouse	160	124	391	150	-61.6	160	6.7
Apartments	458	70	190	175	-7.9	180	2.9
Starts - Total	1,087	567	1,021	650	-36.3	665	2.3
Average Price ($):							
Single-Detached	371,957	367,011	385,227	435,000	12.9	443,000	1.8
New Housing Price Index (% chg.) (Ont.)	3.5	0.1	2.4	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	2.3	4.1	3.4	2.2	-1.2	2.0	-0.2
Two-bedroom Average Rent (October) ($)	869	874	887	896	-	905	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	77,400	75,300	75,500	76,600	1.5	77,700	1.4
Employment Growth (%)	4.6	-2.7	0.3	1.5	-	1.4	-
Unemployment rate (%)	5.6	8.3	7.9	6.3	-	6.2	-
Net Migration	1,016	839	917	925	0.9	935	1.1

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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